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2 June 1983

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2406



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# EAST EUROPE REPORT

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BOGNAR INTERVIEWED ON INTERNATIONAL ECONOMICS

Budapest HETI VILAGGAZDASAG in Hungarian 16 Apr 83 pp 4-6

[Interview with Jozef Bognar, academician, director of the World Economic Research Institute of the Hungarian Academy of Sciences, by Janos Marton for HETI VILAGGAZDASAG, date and place not specified: "The Countries Must be Given Time to Breathe"]

[Text] On the invitation of the Secretary General of the UN, Jozef Bognar, academician, director of the World Economic Research Institute of the Hungarian Academy of Sciences, had recently visited the United States as a member of an international advisory group. The professor was questioned about vital world economic problems and the experiences of his trip.

[Question] Professor, you have been explaining with unceasing patience to heads of state, bankers and, most recently, to the Secretary General of the UN that, in the current crisis situation, there is urgent need to find new solutions to the world economic problems. Are the repeated warnings not illusory when the world economy, although creaking, functions?

[Answer] But how is it functioning? The world economic situation has many elements: unemployment, large budget deficits, indebtedness which can lead to and economic collapse if not handled properly.

[Question] But all these have been characteristics of the world since the 1970s and yet the explosion has not taken place.

[Answer] If thereby you want to say that the economic problems have caused lesser societal disturbances so-far than it could have been expected, then it is correct. But nevertheless, disappointment can be found among broad masses because the capitalistic society can no longer overcome the problems, for instance the unemployment, which it was able to successfully combat earlier. Don't forget that the public opinion and the social and political circles of capitalist nations have grown up with the "Keynesian view" that unemployment can be eliminated. As far as budgets are concerned, deficits cannot be handled by wiping out certain items because the budget is the embodiment of the given economic structure and, if the entitlement system remains essentially unchanged, cultural and other services must be cut back again and again every year. It is a question whether the predominantly conservative governments can accomplish a basic modification of

the entitlement system against the trade unions, and social democratic or labor parties active in the opposition.

Furthermore, I consider the credit problem very severe. Indebtedness on the scale of Brasil or Mexico appeared as totally new elements in the credit market. Although international banking and political circles had known earlier the extent of indebtedness, somehow they did not treat the problem with sufficient seriousness. When the Dresdner Bank and few other West German banks got into difficulties as a result of the Polish debts, the opinion overseas was that these banks scattered the money irresponsibly to Poland, since the US banks were involved in the Polish matter only up to 1-1.5 billion dollars. Had the Brazilian or Mexican situation become clear to them earlier, they would not have expressed themselves in such a manner because now, as a result of Latin-American indebtedness, they are in a much worse situation than any West German bank which had lent money to the Poles. There, the problem is that the developed nations send 35-40 percent of their export to the developing world. However, if the developing world is not able to purchase, then it is obvious that no upturn whatsoever can start in the developed world. Without foreign trade, there is no upturn in a world where, during the previous decade, a 5-6 percent annual economic growth was accompanied by a 10 percent expansion in foreign trade.

But how long can the world handle the monetary affairs in the absence of a uniform monetary system? Bretton Woods-that is, the system of international finance developed after WWII-is dead. A new financial system would be needed instead which would encompass all three players of the world economy because, in my opinion, the international banking world, with stop-gap measures prompted by the situations of the moment, cannot keep matters under control much longer.

[Question] Based on these crisis phenomena, what do you see as the cause of the crisis? Overproduction, lack of effective demand?

[Answer] It is mostly that the world population, currently 4.8 billion, increases annually by 80-90 million. By the turn of the century, 80 percent of the world's population will live in the developing world. This indicates what an enormous contradiction has arisen between effective demand and available capacities. The tension cannot be released in any other way but by mobilizing capital, credit and other economic resources.

Another important element of the crisis is that economy became "internationalized"; this was already expected by Ricardo and Marx. However, the system of mutual dependencies did not develop as expected but rather under three-fold increase in the number of national states. The world economy created a certain need for cooperation which the international political system is unable to satisfy because it is characterized by adversary relations, military buildups and competition. Therefore, the economy is unable to unfold in accordance with its own efforts because its attempts are always undermined by the political tensions.

[Question] In one of your lectures you stated that it is futile for foreign economic or finance ministers to debate international economic matters; indeed, the politicians should be sitting at the conference table. But what should induce them to enter a dialogue?

[Answer] Naturally, the deteriorating world economic situation. In response to the upturn experienced by the US economy, neither the international credit situation nor the purchasing ability of developing nations is being resolved. It is also questionable whether the "engine" is functioning, that is, whether the U.S. upturn will be able to pull along West Europe and Japan? Namely, the power relations among the U.S., the FRG and Japan have changed, which means that the pulling force of the engine has weakened. Therefore, it is not certain that the upturn will be of a global scope and that the accelerated economic development of the capitalist world will set in motion the developing and socialist worlds.

[Question] You mean, it would be self-deception if, in view of the signs of upturn, the politicians would decline to enter discussions on the international economy?

[Answer] Yes, in problems involving economic cooperation, the countries must make political decisions because I do not believe that processes initiated by the economic forces alone can influence policies when the economy does not even have any influence on problems on a scale of the military buildup, for instance. A decision must also be made to convert short-term debts into intermediate-term debts, the countries must be given time to catch their breath, they must be gotten into a situation where they can repay their debts.

[Question] Incidentally, the war economy is squandering resources on a global scale but, in the case of some countries, it spurs the economy through exports.

[Answer] But this is not really unequivocal. The most modern arms systems cannot be exported forthwith. For instance, if the relationship with the buyer deteriorates, it can eventually use the arms against the seller or its allies. Even if the buyer is completely trusted politically, the problem arises in whose hands the arms may land. Namely, the supplier no longer supervises the arms system after the sale. Although traditional arms export can be a significant item in the case of countries with limited foreign trade, it is of secondary importance on the scale of, say, the U.S. foreign trade. I think that military arms export is not such a good business that it would balance all the investments spent on it. Of course, within the system of uncertainties mentioned, certain parts of a country, or states, such as California or Texas in the U.S., can be in an advantageous situation because they get a large fraction of the military expenditures.

I see it as the main problem that politics has excessively relinquished the reins of arms buildup and has considered it too much a matter for specialists. This is derived from the fact that the understanding of modern weapons systems requires enormous specialized knowledge and, in most cases, the politician cannot refute the opinions of military specialists. On the other side, it is difficult to believe that soldiers will enter into a conference which will result in disarmament. Those who see things with the eye of the military will consider mainly the military components of security and not the other- because, in my opinion, a country is not secure when it is fully armed but has 15 percent unemployment.



[Question] To return to the general world economic problems: mutual trust is needed to give some breathing time to the indebted countries, or to have the body politic deal with troubles as global problems. But overseas, there is a relentless campaign about Soviet arms buildup, Soviet presence in Afghanistan, the Polish situation.

[Answer] The mutual distrust is fueled primarily by the arms buildup because all parties feel their very existence endangered. The rest is essentially just argumentation. With respect to arms buildup, some approach could be made by the end of the year, possibly some middle road solution in the actual balance of forces. The other sources of distrust, like Afghanistan and others, play a relatively limited role in the solution of decisive world economic problems: the economic crisis developed within the capitalist world or rather between the capitalist and developing worlds. We, the socialist world, with our 8 percent participation in world trade, 4 percent of which is transacted among ourselves, are present in the world economy to a slight extent. Even the approximately \$70 billion debt of the CEMA region is not quite that large compared to the \$800 billion debt load of the world. Therefore, in my opinion, the behavior of the West toward the Soviet Union and the socialist countries does not hamper it from developing a new approach toward the world economic problems. Of course it would obviously be better if the new solution would come into existence not merely between the developing and capitalist worlds, but as a global one, accepted by all. To achieve this, the socialist countries should also become more active.

[Question] A global solution and a new world economic system are interpreted by many developing countries in terms of having a world government handle the problems—at least in the long run—to offer credits and decide in trade and investment controversies. But capital rejects every kind of intervention. Can this contradiction be bridged?

[Answer] In the capitalist system, the state has no jurisdiction over the capital, the capital is free so-to-speak. Therefore, a complete change in the capitalist system would be needed which again cannot be the result of external demands. The developing nations are right on many points but, in trying to achieve their demands, they clash with the existing structures and interest relationships of the developed capitalist world. Therefore, compromises are needed because neither party can force its will on the other. There are points of concurrence: For instance, the capitalist world is interested in solving the credit problems for the sake of its own prosperity. To have capital move in response to central directives? This I cannot imagine but, with international initiatives, more favorable conditions for capital transfer can also be achieved. Just as it happened in Italy at the time, when tax allowances and other means were used to attract capital for the development of the South. If there is agreement, the investment conditions can be improved. International organizations, the International Foreign Exchange Fund, the World Bank are capable of doing it.

[Question] And others; GATT, UNIDO, UNCTAD and the rest. Professor, on the invitation of Perez de Cuellar, general secretary of the UN, you were in the U.S. recently as a member of an international advisory group. Is there a new organization in the making?



[Answer] On no, no new organization is planned. The General Secretary of the UN had asked for advice as is usual in the case of governments. The conference was convened by the Tokyo organization of the UN University. Thus, there is no plan for a new organization and there was not even a proposal to establish one.

[Question] Did the group consist of scholars alone?

[Answer] Also politicians and decision makers. That is important because scholarly thought, moving between wider horizons, and the approach of day-to-day practice, may be brought nearer to each other in this manner. The scientists do not always have purposeful, technical knowledge to solve certain credit-technical matters. On the other hand, people dealing with routine decisions do not have creative thinking, which is often tragic. Financial know-how is not enough for making financial decisions because the steps have economic-political consequences which in turn have political effects with a possible influence on social stability and instability. Let us say, a specialist in international banking prescribes a formula- if this and that is lowered, balance will ensue- but he does not know, it is not even his duty to judge, what the consequences of his proposal will be. But someone has to consider all of this. These days, enormous international organizations are dealing with just individual special problems, without analyzing the broader implications.

[Question] Over there, did you not find that the U.S. bankers have become more restrained toward us in response to recent failures in Latin-American credit lending?

[Answer] It could be felt that the matter of Latin-American debts has become a very significant problem but this did not diminish the interest shown toward us. They have repeatedly referred to their help in overcoming our problems of fluidity when we have suffered withdrawal of capital. But it is not always easy to follow the U.S. thinking with respect to East Europe because the problem has many components.

As far as we are concerned, they highly regard the adaptation of our socialism to international life. Therefore, I would not believe that our chances are diminishing. I think that up to the time of Brzezinski, the National Security advisor of President Carter, the U.S. had conducted an East European policy well characterized by the expression: "Soviet block", that is, they had viewed it as a "monolithic unit". Brzezinski, who was European and Polish, has made the U.S. foreign service apparatus acquainted with the historically developed differences in East Europe- of course, in accordance with his one-sided and conservative mode of thinking- which are spanning over to the present. Thus, the East European monolithic block concept belongs to the past. I know that they want to use the differences to raise discord but, nevertheless, this is a new mode of thinking which points to a refinement in U.S. policy toward a part of the world which before was thought of in terms of a unit. They did not sense the differences. But this need not be accompanied by negative effects if the socialist countries learn- and current signs point to an ongoing process- to coexist with greater differences and to make the diversity one of the moving forces of their cooperation.

[Question] Apart from the fate of long-range, more important problems, what world-economic changes do you expect in the shorter range?

[Answer] I sense a new situation. The determination of governments to want an upturn has become policy. This is a basic change compared to earlier when lowering of the inflation preempted all other considerations. Today everyone agrees concerning the necessity for an upturn. It is immaterial what the individual reasons are: the money experts do it because, as they say, they had splendidly lowered inflation or, as judged by the opposing camp, strict monetarism has gone into bankruptcy and is finally followed by sensible policies. The important thing is that there has been a change in the economic policy directed toward the tightening of credit and the lowering of inflation which will widen the space for economic movement. Of course, in economics no single principle is valid without quantitative relationships. Namely, growth can be a source of inflationary dangers which, above a certain order of magnitude, will bring harmful effects into the economic cycle. Therefore, it cannot be declared as a general statement that an upturn is better than inflation. Yet I believe that, if the inflation accompanying the upturn is moderate, that will lend much more room for play to the entire world.

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NEW COMPRESSOR DEVELOPMENT FOR GAS PIPELINE IN CSSR DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 22 Apr 83 p 15

[Article by Vladimir Votypka of Transit Gas Pipeline of Prague]

[Text] The transit fee will represent roughly 2.5 billion cubic meters of natural gas annually and, even though part of this gas will have to be resold to finance the construction, about 2 billion cubic meters should be a net addition to cover the needs of Czechoslovakia.

The expansion of the transit system is scheduled for the years 1983 to 1985 and includes, besides the completion of the Konsorcium gas pipeline, several parallel actions:

- intensification of the east Slovakia sector compressor stations with the addition of eight 6-megawatt turboaggregates;
- construction of additional metering sections in the area of the international transfer station at Velke Kapusany;
- construction of a fourth line with a nominal inside diameter of 1,400 millimeters and a length of 857 kilometers connecting the east and west borders of the republic;
- expansion of the compressor stations in Velke Kapusany, Breclav, and Veseli nad Luznici which will be equipped with units of 25 MW output;
- expansion and improvement of the control system;
- insuring maintenance on the new sections and the installed equipment.

On completion of the above listed construction, the transit system should reach a total of 66 billion cubic meters of natural gas capacity annually with investments totaling, exclusive of the completion of the Konsorcium gas pipeline, about Kcs 14 million.

How does the fourth line differ most significantly from the previous construction? [It differs] primarily in the selection of pipeline dimensions which, so far, have been used only for not quite 7 kilometers of the construction of the third line.

It was the general contractor for this project, the Plynoprojekt Praha [Gasproject Prague] which, after a deliberate analysis, decided to use pipes of such huge dimensions which, in comparison to the  $\varnothing$ s [interior diameter] of 1,200 millimeters, is expected to result in a number of benefits. Specifically, in the number of compressor stations and thus the time frame for the completion of the project, reduction in use of energy for the pumps and, not least, in setting up of a kind of reserve for a possible expansion of transport volumes.

These advantages in the end prevailed, even if pipeline construction with  $\varnothing$ s 1,400 millimeter pipes will mean qualitatively new tasks, an increased demand on suppliers, changes in technology, more difficulties in earth removal and the unavoidable use of higher performance equipment.

A second basic change concerns the machinery for the compressor stations. For some time now, the existing 6 MW units have been considered to be below par because their performance in the system did not correspond to the requirements of the  $\varnothing$ s 1,200 millimeter pipeline, much less a pipe with a 1,400 millimeter clearance. Even though they are reliable, they place high demands on the construction of the site and assembly as well as operating conditions and maintenance. Evaluation of various alternatives led to the acceptance of a solution to develop and produce a Czechoslovak unit.

Basically, it is a high performance synchronous electric motor with a 25 MW output with controlled 2,600 to 3,900 revolutions per minute, which will include a thyristor convertor now being developed. Operating reliability of these units should be at least as good as in internal combustion turbines; performance stability should be higher, service and maintenance requirements should be less. Worldwide, no similar units have been put to use on any gas pipelines and no controls have as yet been developed.

Use of the electromotors for the turbocompressor drives should also be advantageous from the viewpoint of energy conservation considering the change of medium: exchange of electricity for natural gas. Operations of the three compressor stations of the fourth line with 7 turbines of 25 MW each will earn 300 million cubic meters of natural gas annually for the use of electric energy obtained from the nuclear power stations.

The development and production of these units as well as the production of the turbocompressors on the basis of a Soviet license was assumed by CKD [Ceskoslovenska Kolben-Danek] in Prague. The use of the new units means not only a technically daring approach, which might have decisive effect on the continued development of the transit system, but also a considerably ambitious task considering the given time-frame. It will have to be developed in close cooperation of all individual participating organizations. But then, that has been the experience which has proven to be successful from the very beginning of the transit gas pipeline construction.

NATIONAL BANK EXECUTIVE CLARIFIES CREDIT POLICY

Budapest MACVAR HIRLAP in Hungarian 26 Apr 83 p 7

/Interview with Dr Laszlo Body, business manager of the Hungarian National Bank, by Maria Lakatos: "Room To Move in the Credit Policy"/

/Text/ The domestic credit policy which influences the increase or decrease of production investments, is a good indication of the country's economic situation. The 1983 credit policy guidelines--it seems--are restrictive in character, yet they provide the economic operating units with opportunities for growth. This is what we discussed with Dr Laszlo Body, the MNB's /Hungarian National Bank/ business manager.

Even last year brought long unimaginable changes in the credit conditions; interest rates increased by a total of 4 percent. The National Bank is now making loans at 14 percent, but the interest rate for covering lack of funds or losses is 15 percent, and--as a rare exception--there are also examples for loans at 16 percent interest.

Out of Turn Also

/Question/ Which development goals are given preferential treatment this year by the bank's credit policy?

/Answer/ The main foreign trade balance goals are given an advantage in judging the loans; the bank will lend money at 12 percent for certain agricultural activities; neither are they charging higher interest for improvements in services to the population.

Preferential treatment can be given to the so-called export goods expansion investments, to modernize the use of energy, and to developments aimed at decreasing the consumption of materials; for these purposes the enterprises can receive longer-term loans with significant refunds of interest. However, the amount of money for loans has decreased compared to last year; there is "only" 20.5 billion forints available for investment loans, and within this, barely over 8 billion for expressly export purposes.

This year's room for movement is restricted by the fact that the investments begun earlier take a large chunk out of this money: the bank opportunities were narrowed down at a time when supplementary loans cannot be issued under any circumstances--in the very interest of preserving the economic equilibrium. The risk that the wage of investments which was so difficult to contain will begin again and increase the imports again, simply cannot be accepted.

/Question/ But under the present circumstances when competitiveness is a question of survival, there would be an extremely great need for quickly recovered investments of relatively low cost. Won't the shortage of loans prevent the implementation of these?

/Answer/ No, because with various tools, such as acceleration of loan repayments, we are trying to create money and the means for the truly efficient, lower cost investments. We are reviewing the already allocated investments for which we gave loans. Inasmuch as the market opportunities may have changed compared to the earlier situation--for example, there are no longer any customers for the product--when we make an agreement with the enterprise to postpone, slow down, or stop the investment and cancel the loan. The losses are still less than if the factory produced for the warehouse. We reinvest the money made available this way. By withholding this year's development funds we have also received about 1 billion forints in addition to the 20.5 billion for investments which serve the rapidly recovered export purposes. And wherever more development funds were generated than expected, we have also asked for out-of-turn loan payments, in terms of the loan contracts in effect.

/Question/ Is it again expected that the plan has underestimated the profits of the enterprises?

/Answer/ According to the preliminary calculations about 7-8 billion forints more will be available for investments from the enterprises' own money. Not from the profits but from using the reserve funds. If they spend this, the equilibrium will be upset and a new cycle will begin, and as I have already said, there will be great pressure immediately on import. No risks of any kind can be accepted for the country's ability to make its payments, not even if the enterprises would invest their own portion really efficiently, and in quickly recovered investments. But I am not convinced about that at all.

Taken Away From Them

/Question/ The solution will again be that the financial opportunities of the enterprises will be restricted by central measures?

/Answer/ As I have mentioned, it is important that the developments take shape as we planned them. For the time being no certain sign of any kind indicates that the world economy will become lively, and in that case there is no opportunity for a general domestic upswing. Thus the bank can make



loans only with strict conditions, and besides this we try to tie down the money which is received by the enterprise's till in addition to the plan, and intended for development. But only saying it is that simple. This is why for years the enterprises have been spending the surpluses generated, lest the budget or the bank "take it away" from them. And for this very reason the government is forced to take measures: the enterprise is spending its money, whether or not there is a pressing need for it. If we think it over, the enterprise behavior is exactly the opposite of that of a well managed household. There the money is saved for years for the larger investments, the car, the apartment. It is too bad to even think about what would happen if suddenly everybody took their money out of savings at the same time and spent it immediately.

/Question/ It has come to light from our discussion to this point no upswing is expected in the economy this year either. But the contrary opinion is heard more and more often, that only the enlivening of the domestic market can bring about the long awaited improvement.

It is general knowledge that the Hungarian economy is tied to the CEMA as well as to the capitalist market with a thousand ties, and cannot exempt itself from their influence. The unfavorable circumstances can be only partially counteracted with good work. The financial tools are not miracle cures. And anyway, it is not correct to think only in terms of investments, especially not when the loan opportunities are limited. The first issuance of bonds by enterprises is also only now being prepared. We do not yet have any experience with this.

/Question/ Last year Hungary has greatly improved its foreign market and payment situation, not the least of which in your judgement is that it has become a member of the IMF. It is expected that this year there will be opportunities to receive loans from the World Bank.

/Answer/ Loans from the Currency Fund which can be used freely really do mean a lot to us, as they efficiently help the indispensable outside financing of our economy. The World Bank can make loans for purposes which coincide with the programs of the Hungarian government, such as further development of grain production, energy rationalization, and structure changes. But these do not represent additional sources, since we are talking about the necessary sources for the planned developments.

/Question/ If we did receive it, under what conditions could the Hungarian enterprises receive world bank loans?

/Answer/ We have already announced the competition for the grain program. For the most part the conditions are identical with the conditions for loans to expand the export merchandise base. In general I can say that we will award the loans in accordance with the all-time credit policy guidelines. Because of this, a uniform approach will prevail in making the evaluations.

/Question/ Even with the strictest credit policy there are ideas worth supporting. What assistance will the National Bank render to implement these?

## Bank Bonds

/Answer/ We have created a new enterprise fund for this purpose within the framework of the Central Exchange and Loan Bank /KVH/, with a 100 million capital for the time being. This does not seem to be too large a sum, but it is sufficient for the start, for gaining experience. By the way, we do have the opportunity--if there is a large deal in the making--to issue bonds in our own name, and thus obtain additional resources for taking part in the undertakings. We are conducting a careful credit policy in this area, first we would rather look at how the business branch is doing. And what perhaps appears as excessive carefulness is not the only thing that stands behind this: issuing bonds will deliver the hopes attached to it if they can be bought and sold. That is, the market for bonds must also be created.

/Question/ That is, even the bank issue of bonds cannot be the driving force for investments which replaces the loans?

/Answer/ Certainly not in the first years, but in my opinion the economic growth now cannot demand that investments--and I am referring here primarily to large volume investments--be initiated either. During the years very much money has gone into the economy, it was used to build large factories and plants, which are not being exploited economically. In my opinion the erroneous belief that growth is possible only through large investment activity, should be eliminated once and for all. Instead, it is worth thinking about how better, more marketable goods could be produced for less, with the machines we already have.

8584

CSO: 2500/230

RIGHTS OF RELOCATED, DISCHARGED WORKERS CLARIFIED

Budapest HETI VILAGGAZDASAG in Hungarian 16 Apr 83 p 35

[Interview with Laszlo Zsiga, head of the Presidial and Legal Department of the National Council of Unions by Agnes Tibor for HETI VILAGGAZDASAG; date and place not specified]

[Text] In the future, probably an increasing number of enterprises and institutions will undertake regrouping of their workers within the plant. In a few places, some of the workers will be discharged. What are the rights of the workers in such situation and how does the union represent their interests? These questions were put to Laszlo Zsiga, head of the Presidial and Legal Department of the National Council of Unions.

[Question] What can a worker do if they want to transfer him to another workplace?

[Answer] Without being consulted, the worker can be transferred to another workplace within the enterprise only if they want to engage him in his earlier sphere of activity, in the same plant and with wages unchanged, or else, if he was originally hired to work at different places. In other cases, he can be transferred only on the basis of mutual agreement. If a worker is transferred to another location, he must be reimbursed for his moving expenses. But I want to stress that the enterprise cannot decide on a transfer impulsively. Before a well thought-out, planned transfer, the enterprise leadership must request the opinion of the union. Effective employment can be the only goal, within the enterprise or elsewhere.

[Question] What happens if the worker does not accept the chance offered by the enterprise?

[Answer] Acceptance of the offered transfer is not compulsory. But the enterprise--I stress, as a last resort, that is, if there is no other solution--can dissolve the work relationship citing the fact and circumstances of reorganization. Exceptions are cases where some circumstances are present which prohibit discharge: if the worker is serving in the military, is ill, pregnant or receives child care allowance. But termination is possible even in such cases if the enterprise is dissolved without legal successor and the worker does not accept the new workplace offered.

[Question] What can the worker do if he finds the termination prejudicial?

[Answer] If he thinks that regulations were broken, he can turn to the Labor Relations Committee of the enterprise and if he is not satisfied with their ruling either, he can go to the Labor Relations Court. In addition, he can ask the Labor Guidance-Mediation Bureau for help in finding employment.

[Question] There are workers who obtain a loan from their workplace for house building or other purposes. If their working relationship is dissolved in the manner described, do they have to repay the loan in one sum?

[Answer] It is unlikely that a worker who is in debt to the enterprise would have his employment terminated. Should this happen, the enterprises will no doubt permit some delay or instalment payments. Similarly, workers who live in dormitories will also not have to give up their use of the dormitory simultaneously with termination of their employment.

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CSO: 2500/237

# ENTERPRISES ADEPT AT PRICE MANIPULATION

Budapest FIGYELO in Hungarian 14 Apr 83 pp 1, 6

[Text] Recently the court issued a verdict in the case of a company for charging a 10-percent production tax for its products instead of the prescribed six percent. The company had to pay only a six-percent production tax for the budget, and kept the difference for itself. There is no doubt that the company is not allowed to increase its profit in this way, i.e., only completed work and material used should figure on the bill. Considering all this, the economic penalty imposed against the company-endorsing group interest was well justified.

The purpose of the economic penalty is to protect the interest of the community, the consumers and the national economy against group interest and, in the case of conflict, to guarantee priority for the national economy. This is especially true for items and services which the consumer cannot buy from any other source and is forced to buy in spite of the high price.

The economic penalty was established in 1968 as a legal institution. However, in the past decade and a half not many economic penalties were imposed. The judicial procedure examines the extent to which group interests collide with the interests of the national economy. Several examples can be cited. For example, the courts have condemned different construction organizations for illegalities that served group interest. For example, the respective companies charged for more labor than they actually used. There were also cases in which they showed on their bills material that was not used for construction and therefore should not have been charged. It is beyond doubt that the above-mentioned methods served the interest of the respective enterprise or corporation and were opposed to that of the national economy. Namely, by charging for such extra items the profit has increased, and, of course, the result was more favorable for the collective, for a group. Expressed in other terms, only as a result of the unorganized, careless work of the abovementioned company, the enterprise could become profitable. Accordingly, it was able to avoid increased financial control and possible financial rehabilitation through government action.

On the other side, from the standpoint of the investor a disadvantage was created, because due to this excessive billing less money was left over for other purposes. Thus the increased expenses of investment had to be covered

by withdrawing money from supplementary sources. All this happened in a particular construction industry where the investor was not in the position to replace the enterprise or cooperative which was making mistakes against his interest, and for its own benefit, with another enterprise. Besides, one should not forget that a fraud remains a fraud even if it is committed in the name of a company--and that happens not only in the construction industry. Therefore the legitimacy of an economic penalty cannot be questioned. The amount of the penalty should exceed the illegally acquired financial advantage.

#### It Does Not Replace Competition

The economic policy is a peculiarity of the Hungarian legal system. We could also say it originates from the characteristic feature of the Hungarian economic system. In capitalist countries, the competition of the market solves these problems. At home, the above-mentioned legal institution attempts to solve them. Naturally, monopolistic or oligopolistic situations can happen in capitalist countries as well, but already attempts are made at the outset to prevent them, more or less, by various regulations. The fixed-price system of other European socialist countries with a more or less strict, centrally planned and directed economy makes it impossible and meaningless for the enterprises to increase their profit in such a way. At the same time one has to realize that the economic penalty cannot completely replace the efforts to create at home a desirable competitive situation. The examples cited below make it clear what methods the enterprises and cooperatives are using in an attempt to increase their profit rather than to increase their efficiency.

The contracts of a large machine factory and of a cooperative are worth mentioning. According to the agreement reached, the enterprise assumed the responsibility of delivering material necessary for bicycle wheels, and the cooperative of assembling the wheels. However, the parties of the contract formulated this transaction in two delivery contracts rather than in one transaction contract. According to the first delivery contract, the cooperative bought the parts for the wheels. According to this contract, the cooperative could not sell to anybody, not even to its own employees, the wheels assembled from parts bought from the factory. Therefore, with regard to the parts needed for the assembly, the ownership of the cooperative was totally limited. Afterwards, within the framework of the second contract, the cooperative sold the assembled wheels to the bicycle factory. Thus the cooperative was able to apply an 18-percent profit ratio instead of a six-percent one. The cooperative made a larger profit than permitted, while the factory was able to disengage its circulatory funds for the duration of the assembly. Finally, the bill was paid by the consumer in the form of a higher price than justified. The outcome of this cooperation was an economic penalty.

#### Price Fluctuation

In another case a large enterprise producing basic material for the textile industry did not lower the price for certain synthetic yarns in spite of the drop of prices on the world market. They were even officially requested to



lower the price on account of the competitive price system. The customers of this enterprise criticized the lack of price reduction, but they had to accept the higher price because the given company was the sole domestic supplier of synthetic yarns.

Yet another case is a company producing tool chests for which they bought some components from another company. The company bought a particular component for about 37,000 forints and billed it to the final consumer for 90,000. The conditions did not justify charging a higher price because the enterprise did not do any work on those parts. During the trial, the company defended itself by arguing that the parts in question were products with a fixed maximal price, and the price figured on the final bill was not higher than the maximal price. The court did not accept the company's defense because the customers showed increased prices on their bills. With this they offended the principle of fair pricing and thus made impossible subsequent control of their price calculation. We can add that the tool chests were manufactured for a large state project which was mainly financed from budgetary sources, and thus the investment became more expensive. The court has taken away the illegally acquired financial benefit in the form of an economic penalty, and as a result the national economy was not affected.

A similar case happened when a cooperative bought finished products from abroad which they handled as semi-finished products and finally sold them as their own products. However, they did no work on those items. The court "honored" this method by imposing on the cooperative an economic penalty of one million forints.

#### Differences in Interpretation

Often one can hear opinions that the legal regulations for the economic penalty are complicated and not sufficiently unambiguous. This statement needs clarification. Actually, the accompanying rules can be considered complicated. When imposing an economic penalty, not only regulations of MT # 20/1973 (VII.25.) and MT # 1028/1979 (XI.1.) rule, which concerns dishonest profit, but other provisions of the law as well have to be considered. Thus the complications arise with regard to the interpretation and application of these attached regulations as clearly shown in an example below. Among other things, the economic penalty has to be imposed for an unfair increase in prices or for irregularities in forming prices. Whether something is to be considered an unfair price increase or an irregular price formation is described by separate regulations. One cannot say that the rather large number of rules concerned with price formation is easy to survey.

According to current experience, during the process of imposing an economic penalty, most of the disputes were due to different interpretations of price-formation regulations. With respect to these regulations, it happened frequently that the standpoint of various cabinets and competent national organs of government were different or opposed to each other.

An example of the ideas just developed is the following: a ministry, which has ceased to exist, suggested imposing an economic penalty of 15 million forints on an enterprise for illegalities in price calculation. However, the national bureau of government, which became responsible in expressing its opinion in the matter of prices after the cessation of the ministry, did not see any irregularities. According to its viewpoint, the bureau saw no irregularity in the price formation and therefore suggested stopping the ongoing process. The court accepted the suggestion and did not impose an economic penalty.

The economic penalty is quite frequently imposed because of irregularities in price formation. The reasons for the judicial decisions one can find from a few examples. In a given case, the court imposed an economic penalty because a company illegally increased freight charges and its general expenses, and thereby its profits, by 25 percent. Another company, which distributed clothing items, made a greater profit than was allowed and justified in trade and did so despite a price supplement.

The economic penalty was also imposed when a company did not calculate price in the real cost and disregarded the rebates. Irregular application of profit ratio was also a reason for an economic penalty. For example, in one case, a construction industry cooperative calculated for the work performed a profit ratio of 7.5 percent instead of the approved 6.5 percent.

Further examples can be mentioned. A cooperative, in its price calculation for children's clothing, considered a general expense of 95 percent instead of the approved 65 percent. It has also happened that an enterprise calculated much higher expenses for technical development or figured a higher production cost than approved in its calculation. The reason for another economic penalty was the application by an enterprise of a 207-percent general operating cost multiplier instead of a 135-percent one.

#### Defense without Principles

As is apparent from the above cases during the process of determining the economic penalty in general, the penalty has to be decided whether price formation is correct or not. If this is determined, it can be decided whether the economic penalty should be imposed. However, it is not easy to find one's way among the regulations pertinent to price formation. Recently it became more and more frequent that a particular enterprise or cooperative produced different products belonging to different branches or that they carried out different services. In such cases, the price-formation regulations of different branches have to be applied, which is sometimes difficult to accomplish. It is just as difficult for the courts to orient themselves in the price-formation regulations as it is for the enterprises. Thus the majority of instances of negligence and illegalities can be attributed to the lack of knowledge.

However, there are different reasons for the frequently opposing viewpoints in connection with the application of economic penalties. Certain organs of government are preventing rather than helping the application of economic

penalty. Moreover, organs authorized to suggest economic penalties do not suggest them, even when needed. This practice, which should be criticized, is implemented by some leading organs which very seldom use their right to suggest such actions. It is also conspicuous that primarily the cooperatives are "victims" of economic penalties. The primary reason is not that they do not have adequate professional preparedness, but the controlling branch organs protect their "own" enterprises—not always justifiably—from legal action.

In the past one and a half decades, most of the proposals were handed in by the Central National Control Board, the General Directorate of Control of the Ministry of Finance, the Attorney General, and the National Bureau of Materials and Prices. The above-mentioned organs are not connected with the companies either by their right of control or by ownership. It is obvious that indirect control decreases the intensity of the relations between the controlled and the controlling agencies. The change that took place in the mode of control does not bring visible results from one day to the next. This is shown by the practice of suggesting economic penalties. It should be emphasized that the goal is not to increase the number of economic penalties but that higher profit and greater income should be obtained only by means of more work, and not by tricks or by outwitting legal regulations.

9968

CSO: 2500/210

PRICE OVERRUNS, CONTRACTUAL DISCIPLINE LEAD TO CONTROVERSY

Budapest OTLET in Hungarian 14 Apr 83 p 11

[Article by Andras Deak: "Controversies About Prices Which Change: They Immediately Agree to the Conditions of Eventual Price Change"]

[Text] These days, there is much talk about contractual discipline which sometimes should rather be called contractual discipline. This refers to the delivery and entrepreneurial relationship among enterprises, cooperatives, agricultural organizations which, instead of an equal standing of the customers, is characterized by one-sidedness: on the one side, the monopoly situation and, on the other side, defenselessness. The economic situation, naturally, also defines the legal possibilities: the ones who order must adapt to the conditions dictated by the suppliers and will think twice whether they should invoke their title to forfeit because of the delayed, poor quality deliveries.

This field has also started to undergo changes in increasingly larger areas of the economy. True competitors are found increasingly more often in the industrial, agricultural and service arenas, suppliers and service providers who, under the new economic conditions, are forced to adapt to the demands of the customers and even have to compete for their favor. This undoubtedly creates a new situation also in contractual relationships.

The legal debates between business organizations are most often related to the signing and fulfillment of delivery and entrepreneurial contracts and usually the parties cannot agree on the price. The uncertainties, misunderstandings are in part also caused by the fact that legal regulation and even judicial practice have not as yet clarified unequivocally the related topics under debate. This deficiency was recently addressed by the Economics College of the Supreme Court in producing position paper number 36. In the following, a brief survey is presented of its most important, most public interest-oriented conclusions.

It frequently occurs in practice that, at the time that contract is signed, the parties fail to adequately define the price and costs of the service and it is found only after delivery that, having failed to agree on the price -which is an important condition of the contract- the entire contract is invalid. Therefore, it is a fundamental problem that the parties should definitely and unequivocally agree on the price at the time the contract is signed. Only in this manner can later controversies related to the service be avoided.

Because the rules of the current price mechanism make price fluctuations possible and, in economic life, the contracts are often of long duration, naturally harmony has to be created between contractual discipline and the price regulatory directives. This can mostly be achieved if, at the time they set the price, the enterprises, the contractual parties immediately also agree on the conditions and extent of price changes. According to the Supreme Court, if the object of the service belongs in the unregulated price category -that is, it has no officially set, fixed price--it is expedient to determine the price as a fixed sum in contracts of brief duration (one quarter, possibly half a year). But the stipulation of a fixed price can also be envisioned so that, in contracts for longer delivery periods, the parties determine the price for quarterly periods. Thus, in a one year contract, as many as four different prices may be set.

The possibility also exists that, for the duration of the contract, the parties mutually assume the risk of price fluctuations and agree on a price which differs from the one in effect when the contract is signed to a degree jointly presumed by the parties. This is the so-called forecast price.

Often, however, even this flexible possibility is insufficient to precisely determine the prices ahead of time. Let us just consider the delivery contracts in effect for several years or the investment ventures -important in the interest of economic stability. For long years ahead, it is impossible to reliably forecast every change which may influence the trend in prices. But it also cannot be the solution that, in such cases- citing the impossibility to determine the price -the parties would not enter into a contract at all. According to the Supreme Court, the procedure to be followed is to have the price, import, transportation and customs fees of the necessary materials and parts precisely included in the contract. Even if these change in the meantime, the important thing is that, at the time of delivery, the just extent of compensation could be unequivocally calculated on the basis of the contractual data. The same is valid for the so-called sliding prices which can be used, for instance, in building-installation contracts and in major domestic investment enterprises.

It is important to know that, if the object of a service has a fixed price, this is binding on the parties and, therefore, cannot be deviated from either up or downward. In other words, the law prescribes that this price is valid for the given contract even if the parties have agreed to another sum in violation of the legal regulation.

In judicial practice, the strange situation has repeatedly arisen that, although the supplier had fulfilled the contract, it came to light later that the parties had failed to agree on the precise price. What should be done in these cases? According to the Supreme Court: If the supplier delivers in spite of the price controversy, it has to be examined whether this behavior does not represent the tacit acceptance of a lower price offered by the purchaser. Insofar as the results of the judicial investigation show that there has been no agreement whatsoever with respect to price between the parties, the contract cannot be accepted as valid. This has the consequence that the delivery or service has no legal basis whatsoever. If this had, nevertheless, taken place, then the economic organization which accepted the service had obtained unlawful material advantage which it must return or else, if this is no longer possible, it must redeem with money. The sum to be repaid is determined by the court on the basis of circumspect evaluation keeping in mind the lawful interest of both parties.



What is the situation if the service under contract has an official price which, after the agreement, is raised to such an extent that the buyer would no longer have contracted for it for the price. Well, in such cases the buyer naturally cannot be obliged to pay the new price, he has the right to dissolve the contract.

In judicial practice, the question also frequently arises who is to assume the loss caused by delay in production and delivery and derived from a price increase of the given product or service during that time. It is obvious that the buyer can stick to the price in effect at the end of the contractual period even if that has become higher by the time of the actual delivery. According to the general rules, the deliverer or entrepreneur has to refund the loss caused by him through culpable, negligent delay. This can also occur if, because of changes in customs regulations, extra expenses arise for reasons which the importing enterprise is responsible for. However, the suppliers and entrepreneurs can be relieved from their compensation responsibilities if they prove that, in order to avoid the delay and fulfill the contract, they had proceeded in such a manner as could be expected from the economic organization under the given circumstances. But, if the supplier succeeds to excuse his delay in such a manner, it is again the buyer who is in an inequitable situation: his losses caused by price increase are not refunded. Therefore, in such cases also, the law makes it possible for the buyer to dissolve the contract retroactively in view of the change in price.

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## DECLINE OF ARTISANS WILL POSE PROBLEMS

Budapest FIGYELO in Hungarian 14 Apr 83 p 4

[Text] The activities of the 121,000 artisans currently working are widely divergent. Primarily they fulfill an important role in services. More than half of consumer services are done by artisans, but they take a considerable part in the production of goods as well. Most important is the production of fashion items requiring elasticity, of missing goods which require small-scale production and of spare parts.

In the last several years several regulations were implemented in order to promote the activity of private artisans. For many years the issuance of licenses to artisans depended on the individual decision of the Authority for Trade. Today administrative barriers no longer prevent the legal functioning of these small-scale trades. This change in policy took place with the aim to facilitate the existence of small enterprises. It is expected that all this will promote the development of desirable competition. This sort of change is already noticeable in some areas.

The development of small private enterprises is primarily reflected in the increased number. We were witnesses to the fluctuation of private trade in the past 15 years since 1967. While in the first 5 years there was an increase in the number of private artisans and their employees, following this, up to 1977, there was a drop in their number. In the last 5 years the number of private artisans increased by 38 percent. The most dynamic increase was among those private artisans who kept their work relation as well, but the number of retired artisans has also significantly increased.

As a result, the number of part-time private artisans has increased at the expense of those who make artisan work a full-time activity. The enlargement of the capacity does not keep pace with the increase in the number of licenses for artisans. Last year 60 percent of the private artisans practiced their trade as a main activity, some 30 percent practiced as a side job and 10 percent practiced to add to their retirement pensions.

The internal distribution of the number is very different within various branches. For knitting, women's haberdashery and the hairdresser's trade, full-time practice is characteristic. On the other hand, half of the shoemakers, three-fifths of the appliance mechanics and half of the radio

and TV mechanics exercise their activities while still keeping their full-time employment. Should this ratio continue to shift in the same direction, certain trades will die off because the part-time workers and especially the retired artisans are devoting minimal time to development. They participate less than is necessary in the training of replacements.

In the traditional service trades like shoemaking, tailoring, dyeing and dry cleaning, the number of artisans for whom this work is a main occupation, and even of those for whom it is secondary, is decreasing. The number is shifting toward the retired artisans and a sharp decline is apparent in the number of their employees as well. As a result, these trades are in danger of dying off. The problem is aggravated by the fact that in smaller settlements the satisfaction of the needs of the population is entirely dependent on the artisans in the above-mentioned trades, because the socialist organizations do not offer services in hundreds of communities. In this way the dying off of private artisans endangers the basic level of services.

However, in the past years a satisfactory development has taken place in the construction trades. The number of artisans has dramatically increased in connection with all sorts of related professions. As a result, the needs of the population in construction are primarily satisfied by private artisans. Not only in the repair and maintenance service but also in the area of apartment construction is the role of small trade a determining factor.

The most important development took place in the transportation industry. Private artisans were not engaged in this area until 1982. However, last year, more than 3,300 permits were issued to private artisans for passenger transportation and 2,800 for freight. As a result, these professions immediately fell into the 7th and 10th rank within the various occupations in small private business with regard to the number of their members. Typically, there was a lack of these activities, especially in the cities. In Budapest, where almost three-fourths of the private taxis are operating, a tangible competition has now developed.

Regulations that came into force in 1982 made it possible for the small private businessmen to participate in various associations, to become members of cooperatives. In the past year this organizational form has not spread out in the circles of private artisans. Only 857--0.7 percent of all private artisans--took advantage of that opportunity.

In view of higher taxes involved--community tax--and increased responsibility because they are responsible for the work of others as well, participation by private artisans in economic cooperatives is advantageous only if it helps to solve those tasks which one artisan by himself is unable to accomplish because of the complexity of the work.

With the considerable expansion of small enterprises, the rate of increase in the number of small artisans is expected to diminish. With the implementation of new regulations concerning small private enterprises one can choose from

several possibilities. Thus it could be advantageous to work as a member in an enterprise partnership--since in this case, as opposed to operating as an artisan--material outlays are unnecessary even in the case of capital-demanding fields, because these groups use the material resources of the enterprise.

9968

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POLAND

FOREIGN EXCHANGE AUCTION EXPERIMENT BEGINS

Law on Auction Rules

Warsaw MONITOR POLSKI in Polish No 8, 10 Mar 83 item 51 pp 94-96

[Text] Order of the president of the Polish National Bank dated 22 February 1983 regarding the conditions, procedures and rules for conducting currency auctions.

Based on point 3 of resolution No 235 of the Council of Ministers dated 15 November 1982 regarding the organization on an experimental basis of auctions with the criteria of effectively selling convertible currencies to state enterprises, (MONITOR POLSKI No 32 item 276) the following is so ordered:

1. Only state enterprises--from now on to be referred to as "enterprises"--can participate in an auction for the purchase of convertible currencies. Enterprises will not be included in the foreign-exchange allowances system, defined in the Council of Ministers' resolution No 134 dated 28 June 1982 regarding the disposition by state enterprises of foreign-exchange acquired from the sale of goods and services through export (MONITOR POLSKI No 18 item 157), in order to purchase convertible currencies for the purpose of financing imports to meet market requirements for production or for additional exports for convertible currencies.
2. The sale of convertible currencies on the basis of auction will be recognized by law with the purchase being for a specific sum of U.S. dollars at a fixed rate with a stipulation that a deposit is made.
3. The enterprise studies the reason for and the effectiveness of the planned convertible currency purchase and defines the size of the deposit to be made by the enterprise at the bank for the right to purchase convertible currency.
4. The minimum deposit is determined by setting a 3-times equivalent in zlotys for the sum of U.S. dollars the enterprise intends to purchase.

5. The deposit is debited to the enterprises' profit share.
6. The enterprise places the deposit in the bank's department which keeps the basic account of the enterprise after having received notification that it has won the auction.
7. The deposit remains in a special noninterest-bearing account for a period of 2 years. In the event that results are higher than declared, the board, about which more will be said in point 10, may reduce the period the deposit must remain in the bank.
8. An earlier release of the deposit may occur in the event of:
  - 1) the nonimplementation of the granted right to purchase convertible currencies after a period of 3 months from the date of the auction, on the day this time limit expires,
  - 2) renouncing its right to purchase convertible currencies for a shorter period than is specified in point 1, on the day the bank, organizing the auction, is informed of the enterprise's decision.
9. The auction is organized by the Bank for Commerce, Ltd in Warsaw.
10. A board is appointed for matters handling the organization of currency auctions. The board, referred to from now on as the "board," will have its administrative location at the Bank for Commerce, Ltd in Warsaw.
  2. The Board's makeup includes representatives from the Planning Commission of the Council of Ministers, the Ministries of Finance, Foreign Trade, for Domestic Trade and Services, the Polish National Bank, the Bank for Commerce Ltd in Warsaw and the Bank of the Polish Relief Fund, Ltd. These representatives will be designated by the directors of the above agencies and the representatives will then represent their agencies as well.
  3. The chairman of the board is the representative of the Polish National Bank.
  4. If the board's chairman invites them, the representatives of the other agencies may participate in the Board's activities.
  5. The board will function in accordance with the rules outlined in annex 1 to this order.
  11. Directed by the following criteria, the board makes the selection of bids:
    - 1) the type and significance of the market product,
    - 2) the value of national deliveries in prices currently fixed in relation to the sum of purchased foreign-exchange.

3) the value of exports, expressed in foreign currencies, in relation to the sum of purchased foreign-exchange,

4) the value of the deposit in relation to the sum of purchased foreign-exchange.

12. 1) Participation in the auction takes place on the basis of the enterprise's bid, directed to the board through the Bank department keeping the enterprise's basic account.

2) Annex 2 to to this order provides an example of a bid.

13. 1) Only those enterprises participate in the auction which have submitted their bids to the board no later than 14 days before the auction itself.

2) The following auction dates have been set:

First Auction	-	25 Mar 1983
Second Auction	-	25 April 1983
Third Auction	-	25 May 1983
Fourth Auction	-	25 Jun 1983

14. 1) The sum of U.S. dollars, granted before the auction, can be used exclusively for the import of goods mentioned in the bid; the bid should be calculated by the enterprise by debiting the production costs.

2) If convertible currencies are used for purposes other than for those specified in the bid, the enterprise is obligated to deliver to the state a sum 10-times the value in zlotys of the purchased convertible currency, counted according to the fixed rate of that currency on the day of the auction. The above sum debits the enterprise's profits share.

3. In the event the enterprise does not achieve the market production size as specified in its bid for export, it is obligated to deliver to the state a sum twice the value of the purchased currency in zlotys according to the fixed rate of that currency on the day of auction. The above sum debits the enterprise's profit share.

15. 1) The maximum sum of convertible currencies an enterprise may purchase at 1 auction is set at \$100,000.

2) The sum of U.S. dollars granted to the enterprise by the board, is recorded in a separate record account for the enterprise by the Bank of Commerce, Ltd in Warsaw.

3) The use of foreign-exchange funds in U.S. dollars occurs according to the fixed rate on the day the orders of the paying enterprise, arranged through the proper foreign enterprise, are accepted by the Bank of Commerce, Ltd in Warsaw.



4. The use of foreign-exchange funds in currencies other than U.S. dollars occurs within the framework of equivalence between these funds and U.S. dollars calculated according to the mean rates, fixed on the day the orders of the paying enterprise are accepted by the Bank of Commerce, Ltd in Warsaw.

5. In the event that the enterprise does not use the foreign-exchange funds, granted to it before the auction, within 3 months, the Bank of Commerce, Ltd in Warsaw returns the funds to the Board for distribution.

6. The Bank of Commerce, Ltd in Warsaw will receive a paid commission of 1 percent of the equivalent of the foreign-exchange funds granted by the board in zlotys according to the fixed rate on the day of the auction. The enterprise's basic account will be debited.

16. The enterprises are obligated to provide the board with information on the results of using foreign-exchange funds, specified in the bid and confirmed by the department of the bank keeping the enterprise's basic account no later than 15 October 1983.

17. This order becomes effective when published.

President of the Polish National Bank, S. Majewski.

#### Inaugural Auction

Warsaw TRYBUNA LUDU in Polish 25 Mar 83 p 2

[Article by PAP: "The Sale of Convertible Currencies for State Enterprises"]

[Text] In the main office of the Bank of Commerce in Warsaw, there will take place on Friday, 25 March, the first of 4 planned auctions for the sale of convertible currencies for state enterprises. This auction is of an experimental nature.

A 7-man interministerial board, in the forefront of which is the representative of the Polish National Bank, grants the right to purchase to him who will be better able to utilize these funds by voting up to a maximum of \$100,000.

Only those state enterprises can take part in the auction. These enterprises must be part of the foreign-exchange system. They place bids in which they define the size of a deposit, which they are prepared to make at a bank, for the right to purchase convertible currencies; likewise, they set the goals, for which they are prepared to use these currencies.

The board makes a selection of the bids; it is guided by 4 criteria: the time and significance of the market production, the value of national

deliveries in relation to the sum of purchased foreign-exchange, the value of exports and, of course, the size of the deposit.

The smallest deposit produces (in zlotys) 3-times the equivalent of the sum in U.S. dollars, which, the enterprise is trying to purchase. This deposit, held for 2 years in a noninterest-bearing special account, debits the enterprises' profit share. Similarly, the Profit share is debited by financial fines which the enterprise pays in the event, it does not achieve the value of production declared in its bid. The connection of financial debits, resulting from the purchase of foreign-exchange, to a profit share, and its impact on the wage fund, should influence the enterprise's entire workforce to such an extent that the mentioned production results would be the highest possible.

As a journalist of the Polish Press Agency has discovered, several million dollars belong to the profit share. However, not many enterprises have responded to the auction idea--perhaps only 10 so far.

#### Few Takers

Warsaw RZECZPOSPOLITA in Polish 26-27 Mar 83 pp 1, 8

[Article by K. Sz.: "Who Doesn't Want Foreign-Exchange for Imports?"]

[Text] Only 8 enterprises have opted for the auction, 2 sought the right to purchase dollars.

At the main office of the Bank of Commerce in Warsaw, there took place on the 25th of this month the first experimental auction for the sale of convertible currencies for state enterprises. Its basic purpose was to make possible for those enterprises, which are not included in the foreign-exchange allowances system, a purchase of the sum of not more than 100,000 U.S. dollars. We have already informed our readers of the conditions and principles for entering the auction in the columns of our newspaper as well as the supplement "Economic Reform."

From the announced 10 enterprises, 8 participated in the auction

A 7-man interministerial board for auction matters examined the first proposal by the local "Prumel" Production and Services Works in Pruszkow. They announced their intention to purchase \$20,000 with the goal to designate the dollars for the purchase of "Kantal" resistance wire for the production of 370,000 electrical units.

After acquainting themselves with the bid and analyzing it, and, likewise, after listening to the additional explanations from the works' representative, the board acknowledged that these funds would be effectively used. "Prumel" received the right, unanimously granted, to purchase \$20,000.

The next bidder was the Capital Enterprise of External Commerce and Services [SPHWIU] in Warsaw, which announced a desire to buy \$25,800 for the

purchase of materials to regenerate cathode-ray tubes for the "Rubin" color television. As the enterprise guaranteed, the granted sum would facilitate the regeneration of 2,800 cathode-ray units, which have remained broken to this time for lack of new parts. In this instance, the commission did not have any reservations concerning the effective utilization of this sum; it had to determine, however, whether the "Rubin" color television was a luxury article, or also an article of general daily use. After being guided by the opinion of Andrzej Nalecz-Jawiecki, the chairman of the Consumer Federation, it was acknowledged that such televisions are not luxury items: after all, around 1.5 million citizens possess them. The Commission complied with the proposal of the SPHWiU and granted it the right to purchase the mentioned sum.

The remaining bids were rejected. In total, during the first session of the interministerial board for currency auction affairs, a sum of \$45,000 was disbursed to barely 2 of the 8 enterprises participating in the auction. The selection was unusually strict.

Three similar auctions will take place by the end of June. As far as there will be specific bids which correspond to existing requirements, there is a chance that several million dollars could be disbursed.

#### Bidder Reactions

Warsaw KURIER POLSKI in Polish 28 Mar 83 pp 1, 2

[Article by Dan: "Foreign-Exchange for the Crafty"]

[Text] Currency Market in Poland! Dollars for Auction! ...in other words, the Polish National Bank is assisting market production.

A currency exchange in Poland! Dollars for auction! Such were the commentaries according to information which announced a currency auction in the Bank of Commerce in Warsaw on the 25th of this month.

This news also electrified journalists. At the designated time, in a building near Marchlewski street, a great crowd gathered. The representatives of state enterprises and only of those, such was the conditions, which did not have any foreign-exchange allowances. A nervous man is walking before the conference hall; it is 10 minutes before the designated hour.

We ask: "Excuse me, are you participating in the auction?"

"Yes, I represent the 'Prumel' Production and Service Works in Pruszkow. We made a bid for the purchase of \$20,000. Counting around 86 zlotys to the dollar, it will cost 1.7 million zlotys. A condition for the purchase: no foreign-exchange funds from production sales, the indication that great efficiency will be shown for every purchased dollar and the deposit (frozen) of a minimum of 3-times the zloty value of the purchased foreign-exchange.

"What drove me to buy dollars? The hangman's rope. Without them we will not move forward with the production of special electrical units, of which we are the market's main distributor. For the dollars we get, we will acquire the necessary resistance wire with a 0.4 mm width. It is not available in this country."

Punctually at 10 o'clock, the representatives of the interministerial board appeared. The chairman is Romuald Sliwka, the director of the Polish National Bank. "Prumel" was the first on the carpet. My interviewee answered the questions without hesitating.

"For the dollars we get, we will produce 370,000 electrical units with a value of 400 million zlotys. The price of one unit amounts to around 1080 zlotys. On the average, it will cost 5 cents for each unit."

"It looks like an effective production," says one of the board's members.

After a while, all declare themselves unanimously in favor for the sale of foreign-exchange. Director Waldemar Paluchowski is happy. Others also. It seems that things will go easily also for them.

The next enterprise, which appeared at the auction was the Cosmetic Factory "Pollena-Miraculum" from Krakow. Even though there was no plant representative, it was heard that the first was requesting the purchase of \$52,000. This sum was needed for the components to produce the cream "Pani Walewska."

"Yes, this is a market production," a commission member spoke out. "But I do not understand why they do not write about shaving creams, which cannot be had on the market."

It turns out that other members of the board consulted with the "League of Women" and with the editor, Andrzej Nalecz-Jawiecki. The answer was unmistakable: This is not an article of general usage. "Pollena-Miraculum" did not get the hard currency. The Warsaw Land-Surveying Enterprise requested an amusingly small sum in comparison to the others--\$600. The foreign-exchange was needed to mobilize inoperative mechanisms worth \$176,000.

"We are the only enterprise in the city, performing service on municipal investment," says the firm's director.

Unfortunately, it moved no one. The verdict thunders: "We will not give."

Of the 8 enterprises which announced their desire to purchase foreign-exchange, only 2 received permission to buy. Only the Capital Enterprise of External Commerce was also lucky. Their bid was for \$25,800, needed to regenerate cathode-ray tubes for the "Rubin" color television.

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## COPRODUCTION ACTIVITIES WITH WESTERN COUNTRIES DISCUSSED

Warsaw SPRAWY MIĘDZYNARODOWE in Polish No 1, Jan 83 pp 25-42

[Article by Andrzej Wieczorkiewicz: "Poland's Coproduction Ties With the West"]

[Text] Industrial coproduction, as one of the new forms of economic cooperation, has developed, actually, only in the last dozen years between Poland and the developed capitalist countries.

### General Trends in Coproduction Progress

The growth of interest in international industrial coproduction, both from the point of view of Polish industrial enterprises as well as from the point of view of western companies, really began in 1965.<sup>1</sup> Besides the shortage of experience in this kind of cooperation, a number of coproduction contracts was concluded in the years 1965-1969, which provided advantages to both sides and, as time passed, were supplemented and expanded. Polish enterprises realized during this period more than 20 coproduction agreements with the capitalist companies. One of the most important license-coproduction treaties was the agreement concluded between PHZ [Foreign Trade Enterprise] "Metal Export" and the English company, Welmsley Burry Ltd., concerning deliveries to Poland of paper machines and the production of their parts in Poland on the basis of procurement documentation. Coproduction treaties were concluded between the M. Kasprzak radio plant and the Grundig Company for the production of tape recorders, between the Measurement Equipment Works in Falenica and Siemens in the telecommunications field, with the British company, Jones Cranes, for the joint production of motors and the Fiat Company for the production of passenger cars.

The lack of clear criteria, which included economic ventures of industrial coproduction, did not permit undertaking large coproduction imports and exports from Poland to the developed capitalist countries, 77 million foreign-exchange zlotys were made in 1977.<sup>2</sup> This was not an impressive figure compared to total Polish exports to the developed capitalist countries, the value of which totalled 3,364 million foreign-exchange zlotys that same year.<sup>3</sup> However, it must be emphasized that the mentioned coproduction initiated new export inflows and added a new quality to the relations with the West.



The normalization of East-West political-economic relations in the first half of the 1970s facilitated the implementation of the state policy which was concerned with a greater role in the international division of labor. During this period in the development of coproduction ties, as one of the preferred methods of more extensive East-West economic cooperation, the formation of a proper institutional-legal structure was begun. Among other things, 10-year treaties were signed which referred to economic, industrial and scientific-technical cooperation with certain western countries,<sup>4</sup> in which:

--governments pledged to support industrial co-production;

--it was recommended that coproduction ventures be regarded as liberally as possible;

--the need was recognized to consider the possibility of introducing customs mitigation and import regulations in relation to goods produced in coproduction.

The specific event which showed the basic significance of the development of Poland's coproduction ties with the western countries was Council of Ministers' resolution No 170 from 1971 and the guidance, published thereafter, regarding the development of coproduction guidelines with the outside world. The mentioned documents set the goals and directions of industrial coproduction development and indicated the industries and sectors of industry in which such cooperation would be more desirable. As an annex to the Council of Ministers' resolution, it was stated:

"The trends in foreign industrial coproduction development should be tied to the general assumption of long-range socioeconomic development plans and the assumption of state trade policy." Further: "Coproduction should be developed, above all, in industrial sectors, the progress of which facilitates the modernization of the national economic production apparatus and favorable changes in consumption. It will also influence the intensification and rationalization of our trade system with the outside world."<sup>5</sup>

The industries, especially acknowledge as important in the rise of coproduction ties are: construction and road machinery, motor (buses and the popular passenger car), machine tools and instruments (particularly numbering aggregates and control mechanisms), radio- and teletechnical (ETO) [electronic computer equipment], industrial automatization, motors (ship and tractor), transport and engine mechanisms.

The creation of an institutional-legal infrastructure and also of a climate, generated for industrial coproduction development, was responsible for its progressive expansion. Poland's share of industrial coproduction in its total exports to capitalist countries amounted to, in successive years: 1970-1 percent, 1971-1.4 percent, 1972-1.7 percent, 1973-2.2 percent, 1974-1.9 percent, 1975-3.1 percent, 1976-2.2 percent, 1977-1.8 percent, 1978-2.2 percent, 1979-2.5 percent, 1980-3.5 percent, and 1981-3.7 percent.



Table 1

POLAND'S INDUSTRIAL COOPERATION WITH THE WEST (EXPORTS)  
(in millions of foreign-exchange zlotys)

Specification	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
1. Exports to the Capitalist Countries in general	4,027	6,622	5,515	7,303	10,013	10,762	11,716	17,736	13,906	15,619	17,897	13,136
including the computer industry (in billions of zlotys)	116	574	800	1,000	1,206	1,707	2,163	2,670	2,990	2,863	3,150	7,776
in percentage	8	12	15	15	12	17	18	21	21	18	18	71
2. Coproduction Exports to the Developed Capitalist Countries including coproduction exports (mlns of zlotys) including coproduction exports of machine indus- try (mlns of zlotys)	42	64	93	158	187	329	254	290	312	385	670	481
in percentage	38	56	88	147	174	313	222	239	247	325	605	465
	90.4	87.5	94.6	93	93	95	87.4	12.6	79.2	84.4	90.3	97
3. Share of Coproduction Exports in all Exports to Developed Capitalist Countries in percentage	1.04	1.4	1.7	2.2	1.9	3.1	2.2	2.3	2.3	2.5	3.8	7.7
4. Relation of Exports of Machine Industry to Coproduction Exports of Machine Industry	12	9.8	11	13.6	14.5	17.5	10.4	9.1	8.2	11.4	10.7	17.1
5. Coproduction Exports to Yugoslavia									130	146	187.5	148.7

Source: Our own computations based on data from the Central Office for Statistics, partially published in: A. Wierzyński: "Polish Industrial Coproduction with the Developed Capitalist Countries," Warsaw 1980 E. Tabaczynski: "Industrial Coproduction," Warsaw 1979.

Table 2

PHILIPPINE INDUSTRIAL CORRELATION WITH THE WEST (IMPORTS)  
(in millions of foreign-exchange pesos)

Specification	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
1. Imports from the Developed Capitalist Countries in general	3,771	5,607	6,679	11,597	17,481	20,519	22,574	21,030	20,618	20,587	21,735	16,711
Including the Computer Industry (mins of slots)	1,046	1,357	2,429	4,190	6,253	8,268	8,509	7,806	7,509	6,168	5,769	3,760
In percentage	28	11	39	18	35	40	38	37	36	30	25	21
2. Coproduction Imports from the Developed Capitalist Countries in general (mins of slots)	--	--	47	81	172	216	156	372	748	784	107	126
Including Coproduction Imports from the Computer Industry (mins of slots)	--	--	43	81	162	193	122	328	202	250	294	172
In percentage	--	--	51	98	94	89	73	88	82	88	96	97
3. Share of Coproduction Imports in all Imports to Developed Capitalist Countries in percentage	--	--	0.7	0.7	0.9	1.0	0.7	1.7	1.2	1.4	1.4	0.8
4. Relation of Computer Indus. Imports to Coproduction Imports of Computer Indus.	--	--	1.6	1.8	2.6	2.3	1.4	4.2	2.7	4.1	5.5	3.6
5. Coproduction Imports with Yugoslavia (mins of slots)	--	--	--	--	--	--	--	101	101	145	159	166

Source: Same as for Table 1.

In sum, Polish coproduction sales with the developed capitalist countries in the years 1970-1981 reached a cumulative value of 6,192 million foreign-exchange zlotys, including 3,928 million foreign-exchange zlotys from coproduction exports and 2,264 foreign-exchange zlotys from coproduction imports. The credit balance of coproduction sales amounted to 1,664 million foreign-exchange zlotys and was the result of a high coproduction export rate during the period under discussion. Within 10 years (1970-1980) coproduction exports increased in size over 15 times, while coproduction imports (1972=100) grew only around 6 times.

In researching the dynamics of the phenomenon being discussed, one can state that it was variable: low in the years 1970-1977 and high in the years 1978-1980. Even with an absolute decline in the export amount of computers that same year, the increase in coproduction exports in 1979 (1978=100) amounted to 23.3 percent. The same can be said for 1980. Coproduction exports increased by only 11 percent in comparison to the previous year. The next crisis year, 1981, did not see any great limitations in the development of coproduction exports, and its decline did not differ significantly from the trends in the world's total exports from the computer industry to the markets discussed. A characteristic feature of coproduction cooperation with the West is a concentration of ties in the computer industry. The share of coproduction exports of the computer industry in Poland's total global exports to the capitalist countries amounted to only 91.7 percent annually on the average during the period under discussion. In 1973, of the 313 coproduction items undertaken with western partners, as many as 274 were undertaken by computer industry enterprises. The same can be said about the following years. Finally, in the last 4 years of this researched period, the coproduction exports of the computer industry amounted to around 20 percent of Poland's total computer industry exports to the West. Decisive are the great differentiation of the technological processes, the design complexity of the end products, the advantages resulting from the production in large quantities, etc. Moreover, in certain sectors of the Polish computer industry, the industrial coproduction with western companies became a necessity inasmuch as it was one channel for the export of their items to western markets.

#### Geographic Trends of Interchange

The current state of cooperation with individual capitalist countries is characterized by great diffusion and significant fluctuations during a given year, both in coproduction imports and exports. In coproduction sales with individual capitalist countries, one cannot observe distinct development trends, and annual changes are often considerable. For instance, coproduction imports with Italy amounted to 11.9 million foreign-exchange zlotys in 1975, 9.4 million in 1976 and 140 million in 1977. Similarly, great fluctuations were characteristic of coproduction imports from the United States: 27.2 million foreign-exchange zlotys in 1974, 18.8 million in 1975, 49.6 million in 1976 and 22.9 million in 1977.

The lack of an equally distinct correlation between the dynamics of global sales and the dynamics of coproduction sales with individual countries,

both in exports as well as in imports. This also results from the small portion of coproduction sales in the totality of our sales with the countries discussed. A small portion of coproduction sales causes that even their absolute growth in a given year was not able to check the declining trend in global sales with individual countries. It also so happened that global sales increased, although the value of coproduction deliveries decreased. An example of these mentioned trends was an exchange with Italy and Great Britain. Poland's cumulative exports to Great Britain in 1975 and 1976 increased, while coproduction sales decreased considerably during this period.

A gross of the coproduction agreements concluded by Poland with western countries falls to 2 countries: Italy and FRG. The correlation between the dynamics of coproduction cooperation and the affiliation of the countries to an economic or regional grouping has not yet become clear, even though one would expect that industrial coproduction would be the easiest to realize with the smallest countries (because of economic groupings), the development of which depends on foreign trade to a great degree and the limitation for cooperation are the smallest. At this time, statistical data indicates that in Poland's industrial coproduction progress with the developed capitalist countries--differently than in trade sales in general--administrative and noneconomic limitations did not play too great a role.

In summing up Poland's experiences in industrial coproduction, one can say that it is characterized by the following features: a rather significant rate of quantitative growth, stability (thanks to the principle of compensation) and a strong influence on the growth of exports and their restructuring.

A coproduction export surplus to the developed capitalist countries in association with the rate of growth, which is greater than the global rate of growth of industrial exports to the markets discussed, caused the coproduction industrial progress with the West brought some additional advantages with it.

The first advantage was the general growth of industrial exports to difficult western markets. Thanks to the acceleration of the coproduction export rate, the industrial export rate also grew. The growth rate of noncoproduction industrial exports to the West was, particularly in 1976-1980, lower than the growth rate of global exports to the developed capitalist countries.

Another advantage, resulting from the high coproduction export growth rate, is its impact on the structure of industrial exports to the West.

Of course, qualitative data are hard to come by, but, because of the very fact that coproduction exports, especially in recent years, depended on the export of well-processed articles and were concentrated on the computer industry, their growing valuable share of global industrial exports result.

Beyond the favorable influence on the growth rate and the development of trade with the developed capitalist countries, industrial coproduction can

Table 3  
POLAND'S COPRODUCTION IMPORTS FROM CAPITALIST COUNTRIES  
(in millions of foreign-exchange zlotys)

Specification	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Coproduction Imports from Capitalist Countries in general	--	--	47.3	82.9	171.6	216.3	166.2	372.0	248	294	307	126.0
including:												
France	--	--	0.1	0.7	3.7	8.07	31.3	45.1	18	32.2	11.5	2.8
FRC	--	--	16.9	28.4	45.4	42.3	45.6	33.7	30.5	18.2	16.2	12.2
United States	--	--	--	7.0	27.2	18.8	49.6	22.9	34.4	37.4	20.8	27.7
Switzerland	--	--	6.1	6.8	2.7	2.7	0.7	0.2	--	4.8	5.3	0.6
Sweden	--	--	0.0	7.5	7.8	12.2	11.5	6.9	15.5	8.9	1.2	3.5
Great Britain	--	--	7.0	13.4	20.4	10.7	8.1	25.5	7.8	6.2	3.9	0.3
Italy	--	--	13.7	13.1	40.8	110.9	9.4	140.9	76.3	95.7	137.4	63.6
Others	--	--	3.5	5.3	23.6	10.6	10.1	97.7	64.9	6.0	117.7	15.3

Source: Same as for Table 1

Table 4

POLAND'S CO-PRODUCTION EXPORTS TO CAPITALIST COUNTRIES  
(in millions of foreign-exchange zlotys)

Specification	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Co-production Exports to Capitalist Countries in general	41.7	64.2	92.6	157.6	183.6	328.9	254.3	290.4	312	285	670	681
Including:												
France	0.7	0.6	1.1	20.7	8.4	11.3	17.9	16.9	29.7	32.5	32.6	20.1
FRG	14.1	29.7	33.7	73.8	72.7	66.1	71.2	87.5	93.7	30.5	139.5	71.6
United States	--	2.1	5.3	10.1	25.9	44.6	20.1	7.5	17.5	34.4	31.9	28.4
Switzerland	0.1	10.6	15.8	8.4	15.3	14.9	9.4	8.8	13.8	--	34.6	30.7
Sweden	2.8	6.5	3.3	5.2	7.5	16.4	9.9	17.8	7.9	15.5	9.3	10.0
Great Britain	2.9	5.9	4.5	5.1	16.2	6.4	6.7	20.7	5.1	7.8	48.1	13.4
Italy	4.0	1.6	2.0	2.1	14.7	121.3	108.7	123.5	127.0	176.9	351.6	289.6
Others	17.1	7.4	27.0	32.2	22.4	47.9	10.4	7.7	17.3	87.4	22.1	17.2

Source: Same as for Table 1.



have a considerably favorable impact on the formation of domestic economic conditions. This results from the peculiarity of East-West industrial coproduction, which dictates that coproduction activity between countries with different systems and levels of development of their social forces of production, and also goes beyond elements of gain. Among other things, the well-organized industrial coproduction between Polish and foreign enterprises brings about the flow of technical documentation and instrumentation and help in training personnel on the Polish side, for better or worse. Beyond this, coproduction needs required, for example, an increase in the technological discipline of the individual national subcontractors.

Another indirect advantage, resulting from coproduction cooperation, is that the national consumer is allowed access to daily use articles with hard currency. An example can be the Fiat 126 passenger car or the entire range of electrical equipment of general use: products from Thompson, Grundig and others.

The observed behavior of domestic coproduction enterprises under crisis conditions can expand the concept of the macroeconomic nature. It appears that advanced coproduction ties develop partially automatically in relation to the pregressive trends of the entire economy. The equally important, noncash coproduction exchange is perceived considerably weaker and with the delay in the arrival of worries, which the crisis causes.

This explains, at least partially, the apparent paradox of the quantitative development of certain coproduction ties, despite known difficulties in the national economy. During the crisis, one of the advantages of coproduction was revealed. It is a flexibility to adapt to difficult situations and is dependent on the utilization of the partner's assistance and supplies. It needs to be recalled here that resistance to industrial coproduction is not confined only to the conditions of national crisis. Many Polish enterprises, which have expanded coproduction ties with West European partners, easily maintain increases in exports equally under conditions of crisis in the markets of their partners in comparison to the exporters of final products. Among other things, this results from the fact that various forms of protectionism, e.g., in the EEC, weakly or generally did refer to coproduction sales.<sup>6</sup>

#### Development of Coproduction Forms

In analyzing the coproduction agreements with the West from the point of view of form, one can distinctly distinguish, especially initially, that coproduction occurred mainly in a simple and narrow form. From among the 313 coproduction agreements in 1973, as many as 267 referred to simple and narrow coproduction, made up of deliveries from Poland to the foreign partner, 28 were of a simple, bilateral agreement, and only 18 agreements were arranged bilaterally. One can assume that in many cases, considering the time, the value of the transactions and also their form, industrial coproduction did not differentiate at that time from normal exports or ordinary imports of supplies. If we compare the number of subject items, undertaken in 1973, and especially during the period when coproduction sales

started to be perceived in regard to the size of coproduction exports to the capitalist countries, it seems that the value of average coproduction exports, under the terms on one contract, amounted to around 505,000 foreign-exchange zlotys. If we consider that among the concluded treaties there were also contractors for greater sums, then it becomes clear that the remaining treaties could not play a great role in production processes. Beyond that, almost 2/3 of the treaties became agreements of 1 and 2 years, and envisioned activities of a short-term rather than long-term nature.<sup>7</sup>

A certain type of Polish industrial coproduction with the developed capitalist countries has come about for even a long time. It possesses such features that in relations with every partner country, 1 or several treaties are transacted, which are characterized by relatively great value and include the implementation of mutual services, at least over a several year period. Small contracts, concluded for a short time with small or medium-size partners, have resulted from the remaining portion of coproduction cooperation. Therefore, in the activities, which the economic authorities acknowledged as industrial coproduction, a large portion thereof is made up of semitrade activities, which should be replaced by the classic forms of trade in order to intensify the export of traditional products.

The application of simple forms, the practicality of which has been recognized in the industrial coproduction among the socialist states, stimulates trade, to be sure, but in the long run, it can lead to the consolidation of the traditional and unfavorable structure of exchange in the area under discussion, as it does not require the transfer of technology.

However, as the practice of the following years indicates, the earlier experiences, despite modest quantitative achievements, did not have an impact on the further progress of coproduction, creating the framework for the institutional-legal infrastructure for the development of further coproduction cooperation in rather intensive coproduction forms. At the same time, Poland attempted to create the conditions for overcoming the gaps, resulting from the differences in the level of the development of production forces, through the purchases (not always successful, to be sure) of modern technology and equipment for selected sectors of industry or their subsectors.

The intense purchases of technology (in 1976 Poland possessed 385 active licenses) together with the legal regulations caused the partial elimination of change transactions after 1974 from industrial coproduction, the share of large contracts in developed forms increased and the period of cooperation lengthened. Already in 1976, the share of coproduction treaties, concluded for longer than 2 years, amounted to 89 percent, while in 1974, it was 55 percent and in 1972, only 39 percent. Simultaneously in 1976, 40 percent of the coproduction agreements were concluded for a period of 6-10 years and 31 percent of the agreements were concluded for an even longer period.

It is worth adding that more than 80 percent of Poland's coproduction sales with the West in recent years has been with the large multinational corporations.<sup>8</sup>

Table 5

The Classification of Poland's Coproduction Ties with  
the Developed Capitalist Countries in 1975 and 1979  
(in percentages)

<u>Type of Coproduction Ties</u>	<u>1975</u>	<u>1979</u>
Generally	100	100
1. Joint production and specialization based on the inner-sector division of labor	37.5	53.7
2. License granting in place of finished products or their parts	25.0	20.1
3. Deliveries of investment items for finished products	16.1	9.5
4. Joint projects	16.0	12.1
5. Ties based on sub-supply	3.6	4.1
6. Partnerships including market activity	1.8	2.0

Source: W. Kowalewska: "Trends in Coproduction Development." Warsaw 1976, CINTe p 2 and our own calculations.

#### Future Development of Industrial Coproduction

1. To the most important factors, which favor the further expansion of Poland's coproduction cooperation with the West, one can include:

--the objective laws of international coproduction progress associated with the level of economic development of individual countries;

--the requirements associated with the intensification of growth in national income;

--complementing elements and experiences in coproduction;

--bilateral interest in raw material and energy cooperation.

#### Objective Laws of International Coproduction Development

Industrial coproduction development abroad is inevitable for the developing country, because inner-subsector specialization and its specific phenomenon, industrial coproduction, have become on the international scale a significant factor of economic development, to a large measure for small and medium-size countries, which have exhausted the possibilities for further expansion of their internal coproduction. For this reason, their supply imports for

industrial production have risen to a high level. Research, conducted during the 1970s, indicate that a distinct correlation evident between the industrial growth rate of production of individual and the imports growth rate of industrial articles.

Thus, for the development of modern industrial production, even at low annual growth rates, a definite amount of technology imports is necessary in the form of licenses or materialized imports of products, which is realized usually within stable coproduction cooperation.

Focusing attention a bit higher, one can state that Poland, which counts herself among countries of average size and with average resources, will also be forced to develop its coproduction ties abroad in order to develop further economically. Moreover, possibilities in this area are far from being utilized. The share of coproduction imports in Poland's global investment imports (in 1980, less than 10 percent) is considerably lower not only compared to the West, but also in comparison to Hungary (17 percent) and Czechoslovakia (15 percent).

#### Requirements to Intensify Growth in the National Income

In order to control the growth rate of Poland's coproduction ties with the West, an essential factor will be the initiated and achieved growth rate of the national income in the 1980s and, more exactly, the growth rate of industrial production. From the point of view of causing a slump in the Polish economy, any extrapolation of the last decade's trends does not provide any great prognostic value. Certainly, the conditions from the first half of the 1970s for attaining a growth rate of the national income and, especially, a growth rate in exports and imports to the developed capitalist countries, will not be seen again.

However, as the experience of 1979-1981 proves, the rate and dimension of industrial coproduction can be different with observable changes in the national income. The results of recent years point to this indirectly: in 1979, a reduction in the growth rate of the national income occurred (1978=100), while the growth in imports and, particularly, in exports, under the banner of coproduction, was considerably greater that year than in past years. Even more distinct trends became clear in 1980.

#### Elements of Complementariness

The new, already selected industrial complementariness, which is understood to complement production profiles, spoke for maintaining and even increasing the rate of industrial coproduction development with the developed capitalist countries. The so-called production of a single sector or even of a large enterprise was so organized that its development required the parallel development of specific production in the enterprises of a given sector in another country. In many instances, together with the implementation in Poland of significant investments based on western technology, the mentioned

interdependence became a fact of essential significance also for the operations and development of individual western companies. Among other things, industrial coproduction allowed them to reorganize in order to better survive the economic recession which was continuing from 1973.

It seems that one can formulate the following thesis: growing at a slow pace in certain industrial subsectors of the computer industry, the complementariness with the West surely contributed to the expansion of coproduction ties and their associated coproduction exports, even though many coproduction agreements and their associated technologies did not fit our conditions.

The West, looking for new trends in the world economy, conducted a restructualization and renovation of its industry, achieving a kind of "clearance sale" of its old, environmentally harmful and resource and energy intensive technologies. It seems tha in this, one should search for the main reasons for the ill success of the concept of technological "charge" which resulted in a unilateral opening for imports but did not lead to an expansion in exports. It is necessary to expect that Poland's reformed economy will endeavor to increase the effectiveness of coproduction ties with the West by implementing a policy of technology purchases, which better correspond to the trends of the world economy.

#### Resource and Energy Cooperation

For the 1980s, resource cooperation will certainly be an important and even all-European type of cooperation. This view is shared by M. Dobroczyński who writes:

"On the European scene one can differentiate several key elements of the geographic-subsector structure of international industrial coproduction, namely, industrial cooperation among countries with high degrees of development of modern industrial subsectors, between countries with varying degrees of development of their industrial subsectors, between countries with different levels of development in the more traditional industrial subsectors and between countries with a strongly developed processing industry and considerable import requirements for resources and countries which possess large amounts of national supplies."<sup>9</sup>

The result is that an essential motif of Poland's industrial co-production with the developed capitalist countries in the future can also be ties based on the joint exploitation of natural riches and sources of energy. This is an objective tendency, which results, on the one side, from the disproportion between the economic development of western Europe and their lack of natural resources, and on the side, from the current requirements of the socialist countries. Of course, the problem of access to fuels and resources is felt differently in individual capitalist countries, but even now, these states are aiming at guaranteeing the deliveries of fuels and resources indispensable for their further development. Poland, a country endowed with certain natural resources and situated favorably geographically,



was in the 1970s a valuable partner in cooperation based on the joint utilization of natural riches. The treaties signed for several years periods (e.g., with West Germany on a supply of gas from coal deposits or with France on the exploitation of copper and sulfur deposits) permit the inference that cooperation of this type will continue into the 1980s; besides, it can have an inspirational influence on other fields of industrial coproduction. An example can be the coproduction with the production of self-propelled loading machines and carts for mining copper with the French company, JOY.

2. Beyond the mentioned factors, the impact of which on Poland's coproduction ties with the West seems to be positive, it is necessary to recall also the other elements which can shape the economic reality in the future and influence the trends in regard to cooperation. Presently, they cannot be foreseen. But the following ideas are especially important:

--the trends and rate of evolution of the operations system of the Polish economy;

--the course of the economic policies in the capitalist countries;

--the impact of the political factor on the state of East-West economic relations.

#### Industrial Coproduction and an Economic Operations System

Poland's industrial coproduction development with the West, her growth rate and dimension will depend in the 1980s, to a great extent, on overcoming a series of internal barriers, which arose from a centralized economic operations system. Despite certain reform activities, this system still maintains the basic features of the orders-distribution system, which not only fails to help opening the country to the outside, but also generally to run the economy efficiently. Z. Sadowski characterizes the economic operations system of the 1970s:

"The destruction of efficiency in microeconomic activities, the chronic defect of structural adjustment between supply and demand, the contradiction between the sector and local structures which disallow the cohesion of activities, the total ineptitude of the economy to provide a rapid rate of developing and absorbing technological and scientific advances--these are the main sins of the former economic mechanism, which appeared in the 1970s. It caused for the undoubted success, which comes with the creation of great industry, to change into an economic defeat, the dimensions of which can hardly be imagined."<sup>10</sup>

Under such conditions, the policy of developing coproduction relations, which strove for a greater opening of the economy to foreign cooperation, was conducted, to some extent, in defiance of the contemporary system and was completely foreign to it. The result of such a state was the quantitative development of coproduction ties with the West, but their efficiency and effectiveness left much to be desired.



The experiences of the previous period show that the appointment of any international commission with the chairman of the Planning Commission in the forefront, did not result in the elaboration of a common policy of industrial coproduction with the West, and then, its effective control over this policy. It turned out that the country's progress in industrial coproduction with limited technological and financial opportunities cannot be coordinated in the interministerial department, if the ministries are able to defend their particular interests. A "coproduction barrier" has appeared, which can be defined as a system's inability to implement centrally designed or even priority goals in foreign cooperation.<sup>11</sup>

The difficulties in the implementation of industrial coproduction have become an important element, which, among other things, has forced the orders-distribution operations system of the economy to change. Actions, which are moving in the direction of reforming the economic operations system, began, to our advantage, 1981. Their institutional expression was the appointment of a Governmental Commission for matters of economic reform.<sup>12</sup>

The implementation of economic reform would cause the shift of the economic and coproduction decisionmaking process to the enterprises themselves. In such a case, the economic authorities, in place of direct action, should concentrate on the creation of economic-legal conditions, which facilitate the development of coproduction relations by interested enterprises. Industrial coproduction, this implemented, would be opposed to an administrative office of the economy.

Decision-making on coproduction would become an external matter of the enterprises themselves in this case, much like decisionmaking in administration, profit sharing, etc. With such a model, on the one hand, we will have central and local economic authorities which create the conditions for coproduction development; on the other hand, we will have coproduction activities which result from the enterprises' economic interests.

The state's main task in reforming the operations system should be the creation of legal statutes and material conditions, under which coproduction is to take place. Precisely on this basis, the enterprises, acting on their own responsibility and in their own interests, should freely enter into coproduction association in such a form and with such parties, who most correctly correspond to them. Legal rules and other means, applied by economic authorities, should cause for coproduction, indirectly controlled, to be compatible with the public interest. The creation of such conditions for the enterprises' operations is very important because in the opinion of many authors, only the enterprises are the carriers of coproduction. E. Tabaczynski focuses his attention on this aspect of the problem:

"The essence of the problem is the enterprise. The reason for its existence is growth and expansion. An enterprise without these features has no chance in the world market. The philosopher's stone of change in the Polish economy has to be the energetic enterprise, for which there is no other reason for being than economic. Only such a producer can seriously think about international cooperation."<sup>13</sup>

Thus, it seems that the operations system, with as many as possible elements from the market economy, will strongly facilitate coproduction development in the future.

#### Economic Situation of our Western Partners

We have to include, certainly, the limitations, which are placed on our western partners by the still unfavorable situation in the world economy, with the factors, which exert a restraining influence on Poland's industrial coproduction development with the developed capitalist countries. The crisis and the generally resulting reduction in the economic growth rate in many western countries, the absolute drop in the size of world trade and the associated wave of protectionism will certainly impede progress in coproduction agreements in certain industrial sectors and subsectors. The eventual negative effect of the world economy on the development of coproduction ties may begin to appear in the second half of the 1980s, if the current institutional-legal infrastructure ceases to function. This impacts equally on the treaties on economic cooperation with the capitalist countries at the international level, the majority of which were concluded at the beginning of the 1970s for periods of 10 years, as well as the specific agreements with our western partners on the level of the enterprise, concluded for an average period of 5 years. Without overestimating the role of legal regulations in the economic relations with the West, it is necessary to recall that they were particularly favorable precisely for coproduction cooperation, when one regards preferential coproduction sales.

#### Impact of Politics on Coproduction Development

The connections between the political and economic factors in the development of economic relations between individual countries were reached long ago. V. I. Lenin formulated them very clearly when he wrote that politics is the concentrated expression of economics.<sup>14</sup> The above thesis is of particular significance for the development of economic relations between states with different sociopolitical systems.

The correct political relations for the 1970s exerted great influence on the development of bilateral economic relations, with particular attention on industrial coproduction. To some extent, a classic example of feedback between the political and economic factors was Polish-French relations during this period.<sup>15</sup> The normalization of political relations with the Federal Republic of Germany also exerted significant influence on the regulation of conditions for economic cooperation. The above achievements allowed for Poland to have treaties for industrial coproduction development with all highly developed capitalist countries already in the second half of the 1970s. A third of these treaties created favorable conditions for the development of cooperation for both sides. Positive political tendencies, influencing the development of East-West economic cooperation, allow for us to agree with M. Dobroczynski's assessment:

"...the bilateral and multilateral negotiations of recent years, and their results, show that despite the essential differences remaining in the politics

of cooperation, the process of mutual understanding and approachement will have long-lasting tendencies. In a most general formulation, one can state that the negotiated political-legal scope of East-West economic relations is already largely sufficient for dynamic cooperation, with the stipulation of a constructive interpretation of the word 'coordination' and its fair execution, that is, beyond certain areas and contracts between certain states. These conditions depend, however, on the fundamental concept of cooperation with countries with different systems. Many assumptions seem to indicate that the logic of contemporary and efficient progress speaks for setting too much emphasis on short-sighted calculations and dogmatic approaches in the gradual way the concept of comprehensive cooperation is being implemented."<sup>16</sup>

Of course, the positive influence of politics runs into problems as well. There still exist in the West powerful political and military complexes, which, by using various pretenses against industrial coproduction progress with the socialist countries, are effectively opposing the process of detente.

We find from the above considerations that:

1. Politics are an old and important element which defines the dimensions of economic cooperation, especially between countries with different sociopolitical systems. It marks the noneconomic borders of involvement for the parties in economic cooperation, the transgression of which could lead to the political loss of one side's identity. This is more important than the advantages attained in cooperation. Of course, it is a fact that for one of the parties, maintaining the sociopolitical identity is what it is all about and this is placed above any potential advantage derived through the expansion of cooperation. In other words, current political stipulations exert more or less a degree of influence on the designation of the best degree of opening a given economy to the outside and on the designation of the border between international interdependence of one's national economy, on the one hand, and the sovereignty and economic and political security, on the other hand.

2. The influence of politics changes and is cyclical. Depending on the cycle's phase, it can exert positive or negative influence on the degree of involvement but always within the limits of a specific amplitude. The positive influence of politics on the development and dimensions of coproduction considerations was observed in the 1970s in connection with the world policy of detente in East-West relations. On the other hand, international events from the beginning of the 1980s, with the Polish crisis in the forefront, and the political reactions of the West, chiefly of the United States, indicate that we have entered a phase of economic relations, in which the negative influence of politics can become greater.

#### FOOTNOTES

1. This did not mean that coproduction activities were not undertaken earlier. They were, however, rare. Here we can mention the treaty, concluded in 1961 by Czekop with the French Schneider Concern, which

referred to joint deliveries of cement works to Lebanon, or the treaty with the Swedish Concern, AB Separator, where Poland delivered 17 butchering machines for meat combines exported by Sweden to the USSR.

2. J. Anisz: "The Development of Polish Industrial Coproduction With the Developed Capitalist Countries. Problems in Foreign Trade," 1973, No 3 p 19.
3. "Statistical Yearbook of Foreign Trade," 1970 p 2.
4. Compare: A. Werczorkiewicz: "Polish Industrial Coproduction with the Developed Capitalist Countries." Warsaw 1980, chapter 6.
5. Annex to the Council of Ministers resolution No 170/71 from 14 September 1971.
6. See E. Piontek: "EEC. The Legal Instruments of Foreign Economic Politics." Warsaw 1981, p 316 and following.
7. The enumeration for 1970-1973 confirm the shallowness of coproduction ties. For 675 transactions, the mean period of their duration was 1.4 years.
8. J. Cieslik, B. Sosnowski: "The Role of Large Multinational Corporations in Poland's Relations Abroad." "International Affairs," 1982, No 10.
9. M. Dobroczyński: "European Economic Cooperation." Warsaw 1980, p 1832.
10. Z. Sadowski: "Principles of State Enterprise Activity in 1982," Warsaw 1982, p 3.
11. A good example, which illustrates the phenomenon discussed, could be the inefficient coproduction cooperation organized for a joint agricultural tractor with the English. The center was unable to organize a comprehensive coproduction course in various sectors and industries, beginning with the resources.
12. "Trade in Economic Reform," Warsaw 1981, pp 5-43.
13. "Technical Review - Innovations," 1982 No 1.
14. V. I. Lenin: "Works," Warsaw 1964, vol 24 p 68.
15. Compare A. Wierczyński: "Polish-French Economic Cooperation. Foreign Trade," special issue 1976.
16. M. Dobroczyński: "Political Trends in the Development of East-West Relations. International Affairs," 1978, No 3.

12277

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BROADENING OF CONSTRUCTION INDUSTRY PRICE CONTROLS CHALLENGED

Warsaw FUNDAMENTY in Polish No 11, 17 Mar 83 p 2

/Article by Krzysztof Zadecki: "Our Commentary; Is This the Way?"

/Text/ It is indeed difficult to orient oneself with the myriad of laws, rules and regulations. The reform in construction proved to be more complicated than was anticipated. Its first aspect--the method of formulating prices generates the most reservations.

I believe that a basic error was committed by giving full freedom of movement to the contractor while simultaneously limiting the investor's possibilities. In this situation it brought to a halt the dependence of enterprise on fair and qualitative good work--it is known that the customer will pay for everything anyway. But what of the cabinet's resolution of 30 December 1982? It became only a half measure in the regulation of this issue. It expanded the area of price controls in construction for nonproductive facilities, irrespective of their sources of financing, as well as for facilities included in central investments.

It can be asked, should the cabinet strive to expand the area of price controls for the type of construction that was not specified in the statute on prices of 26 February 1982? I will quote section 5, article 6 of that statute: "Price controls can be established for multifamily housing construction facilities and other nonproductive facilities financed by the national budget." A clear statement.

And so, is this only a matter of the competence of the national administrative body, or perhaps an expression of the self-regulation of economic reform in construction, created by difficulties in its initiation?

Let us introduce the next question: What can we accomplish by expanding price controls in construction? There is no doubt that the cabinet wished to limit the possibility for contractors to pass the results of their uneconomical management on to those negotiating for the work to be done. But this is a half measure. An undertaking is impossible to be completed under existing principles for establishing price controls, and the lack of a balanced construction market. The party negotiating for work, under circumstances lacking uniform cost accounting methods for construction work and a directive-



type basis for standards in the area of waste on the part of people in charge of production, is in no position to verify the extent of charges proposed by the contractor for the facility or the work.

In this situation, price controls in construction only superficially discipline income from the sale of construction-installation production. Actually regulation is limited by lack of a cost accounting method and a uniform basis for standards, and likewise by an imperfect construction of the basis for figuring profit in the regulated price.

When in industry, already in 1981, details of the new system were hotly debated, no one in construction was perturbed by the mechanisms of reform. Faith was too great and wide-spread in the mechanism of self-regulation which gains momentum under conditions of competition in enterprises. It proved to be otherwise. Hopes for this redeeming process of self-regulation were dashed. It is necessary only to intervene with a spirit of conciliation and various solutions which are not always considered until the end. Is this the way to create a construction market?

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## REAL PERSONAL SAVINGS DECLINE IN FIRST QUARTER 1983

Zegreb VJESNIK in Serbo-Croatian 20 Apr 83 p 3

[Article by Ljubomir Cucic]

[Text] In the first 3 months of this year, dinar savings has grown by 9 percent, and hard currency savings by 16 percent. This means that both, if inflation and the drop in the dinar's value are taken into account, have really declined.

Citizens' savings deposits in domestic banks are growing, but not as much as we would like. The population's dinar savings at the end of the first quarter of this year is 9 percent greater in relation to the end of last December. This also includes accrued interest. Really, if the high increase in prices during the first 3 months is taken into account, citizens have fewer dinars in their savings accounts. Dinar deposits today have decreased their share in the citizen's total savings by 32 percent. To a certain degree we are noting a more favorable trend in the term structure of dinar savings, because the share of term deposits is growing at the expense of non-term ones.

## Hard Currency Savings

According to data from the National Bank of Yugoslavia, hard currency savings are, in effect, also falling. At the end of March Yugoslav hard currency savings had increased by 16 percent in dinar countervalues. But, this increase must be attributed mostly to the rapid fall of the dinar's value vis-a-vis the world's currencies. From the beginning of the year, the dinar in relation to the American dollar has lost around 25 percent and some 20 percent in relation to the German mark. In other words, hard currency savings in the first 3 months has really decreased by around 6 percent.

In order to revive hard currency savings, commercial banks, in cooperation with the Federal Bureau for Employment and Technical Cooperation with Foreign Countries, have begun action to organize the payment of disability and other pensions, earned by our citizens working abroad. This also concerns the advancement of planned savings, primarily for housing construction and development of the retail economy. In cooperation with the Federal Secretariat for Finance, they will attempt to lessen excessive administration during the sale of domestic goods for dinars of hard currency origin when the buyer is freed from paying the basic turnover tax.

### Providing Credit to Citizens

The advancement of credit to citizens even further occupies many banks as well as buyers of apartments, consumer goods, etc. As is known, in recent years it has become all the more difficult to obtain credit because of restrictive monetary-credit policies. The first quarter of this year noted stagnation in the approval of credit for citizens. Short-term consumer credit was lessened by 2.5 percent and long-term by 4.3 percent. It must be remembered that banks usually give fewer loans at the beginning of the year. Housing credit has approximately levelled-off, having been decreased by .7 percent in relation to last year. Along with high interest, worsened conditions for the providing of credit to banks from the currency issue for covering housing credit, approved on the basis of the hard currency sold, have caused the smaller demand for loans. This will also be negatively reflected in both housing construction, and in the influx of hard currency sold to banks.

### New Interest Rates

One of the novelties which banks are preparing for their savers is the introduction of dinar interest rates on hard currency savings deposits. Dinar interest rates on hard currency, as we have already mentioned, will accrue only if the owner of the hard currency account requests it. In that case, it will be on the average 5 percent greater than that for hard currency. Dinar interest will be calculated exclusively for hard currency term deposits. For now, it is still uncertain when this new feature will begin to be implemented, because although the term has been determined, not all the commercial banks in Yugoslavia have agreed to it. Even those which have, have some reservations about dinar interest.

Generally, as far as interest rates are concerned, there are no signs that they will soon decline. Inflation further exceeds all expectations and corrections in interest rate policy are directly tied to the rate of the rise in prices. By the middle of the year, the eventual regulation of interest will again be discussed in the Yugoslav Association of Banks. A standing committee for following economic movements and the coordination of interest rates with the changes will be established.

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